

Message Text

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PAGE 01 TOKYO 16904 01 OF 02 010930Z
ACTION EA-12

INFO OCT-01 ISO-00 ONY-00 /013 W
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P 010825Z NOV 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 2424

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E.O. 11652: N/A
TAGS: EGEN, EFIN, JA
SUBJECT: EMBASSY CRITIQUE OF STANDARD LINE

EFS: A) STATE 250254; B) STATE 254821

1. EMBASSY APPRECIATES OPPORTUNITY TO COMMENT ON "STANDARD LINE" PAPER PREPARED BY ARMACOST FOR USE BY SHAPIRO OF DUPONT DURING HIS VISIT TO JAPAN. AS WE EXPECTED THE PAPER WAS AN EXCELLENT SUMMATION OF THE PRESENT SITUATION AND WE GAVE IT TO SHAPIRO WITH NO QUALMS. SHAPIRO WAS NOT ONLY APPRECIATIVE BUT FULLY IN ACCORD WITH IT. HIS MEETING WITH THE PRIME MINISTER WENT SMOOTHLY AND HIS REMARKS WERE WELL RECEIVED.

2. THE PAPER APPROPRIATELY TOOK A STRONG LINE CONSIDERING SHAPIRO'S NON-GOVERNMENTAL STATUS AND HIS OWN FEELINGS. IN DISCUSSION WITH HIM BEFORE HE MET WITH THE PRIME MINISTER, WE SUGGESTED THAT HE DRAW ON HIS OWN EXPERIENCE IN EMPHASIZING THE RISK OF PROTECTIONIST ACTIONS IN THE U.S., PARTICULARLY IN THE CONGRESS. WE ALSO NOTED THAT SOME OF THE FORECASTS IN THE PAPER WERE QUITE PESSIMISTIC. JAPANESE ECONOMIC FORECASTERS ARE HONESTLY PERSUADED THAT THE CURRENT
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ACCOUNT (C/A) SURPLUS IN JFY 78 WILL BE SIGNIFICANTLY LOWER, NOT HIGHER. THE ESTIMATE OF EMERGENCY IMPORT PROGRAM SPENDING AMOUNTING TO LESS THAN DOLS 1 BILLION THROUGH 1980 ALSO SEEMS LOW. IN THE LAST TWO WEEKS THE PRIME MINISTER HAS PUSHED HARD FOR "EMERGENCY MEASURES" SPENDING AS HIGH AS DOLS 2 BILLION. IT IS DOUBTFUL THAT THE DOLS 2 BILLION TARGET WILL BE

MET, BUT WE HAVE NO DOUBT THAT THE JAPANESE ARE TRYING AND TRYING HARD.

3. THE PAPER MAKES SPECIFIC MENTION OF JAPAN'S BILATERAL SURPLUS WITH THE U.S., INDICATING THAT IT WILL GROW BY DOLS 1-2 BILLION IN 1978. SINCE THE THRUST OF OUR APPROACH TO THE JAPANESE IS TO EMPHASIZE THE GLOBAL NATURE OF THE C/A BALANCE PROBLEM, AS THE PAPER ITSELF DOES NICELY IN PARAS. 7 AND 11, WE QUESTION WHETHER THE BILATERAL BALANCE SHOULD BE EMPHASIZED OR EVEN MENTIONED AT ALL. IT WAS APPROPRIATE FOR SHAPIRO TO DO SO, BUT IT COULD EASILY SEEM CONTRADICTIONARY IF USED IN A PRESENTATION BY A USG OFFICIAL.

4. WE PARTICULARLY WELCOMED THE STATEMENT IN PARA. 10 THAT THE ADMINISTRATION FAVORS A STRONG DOLLAR REFLECTING A STRONG DOMESTIC ECONOMY. THE JAPANESE ARE ALL FOR SUCH A POLICY, BUT AT TIMES HAVE DOUBTED THAT WE REALLY MEAN IT. THEY KNOW THAT THE DOLLAR HAS NOT DEPRECIATED ON A WEIGHTED AVERAGE BASIS COMPARED TO ALL FOREIGN CURRENCIES, BUT IT CERTAINLY HAS DEPRECIATED AGAINST THE YEN. SOME JAPANESE HAVE BEEN QUICK TO CONCLUDE THEREFORE THAT THE DEPRECIATION WAS A DELIBERATE OBJECTIVE OF THE USG.
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5. BECAUSE BOTH OUR SOCIETIES ARE BOMBARDED WITH INFORMATION THERE IS, ON BOTH SIDES OF THE OCEAN, AN EVER PRESENT DANGER OF LEAPING TO CONCLUSIONS ON THE BASIS OF INCOMPLETE STORIES. THAT IN TURN GENERATES PRESS REPORTING AND COMMENTARY WHICH DISTORT THE UNDERLYING DIRECTION OF POLICY. SOME CONFUSION OF THIS TYPE IS INEVITABLE. IN PRESENT CIRCUMSTANCES WE DO NOT THINK THAT JAPANESE AUTHORITIES ARE DELIBERATELY MISINTERPRETING, BUT THEY ARE NERVOUS AND DEFENSIVE AND CANNOT HELP BUT BE SUSPICIOUS. THE RECENT INCIDENT IN WHICH TREASURY SECRETARY BLUMENTHAL'S CASUAL REMARKS ON THE APPRECIATION OF THE YEN AND THE MARK CREATED SUCH A STIR IN TOKYO IS A GOOD EXAMPLE. IT IS OUR IMPRESSION THAT BLUMENTHAL'S REMARKS WERE NOT INTENDED FOR PUBLICATION. THEY WERE CERTAINLY DISTORTED IN A REUTERS REPORT WHICH, AFTER TRANSLATION INTO JAPANESE, PROVOKED A SHARP REACTION FROM JAPANESE OFFICIALS. THIS REACTION, TRANSLATED BACK INTO ENGLISH, WAS QUICKLY READ IN WASHINGTON BUT DID NOT DESERVE TO BE TREATED AS

OFFICIAL JAPANESE POLICY. OUR RESPONSE, WHICH
WAS TO EXPLAIN AND CORRECT THE RECORD, WAS PROPER.
WE SHOULD DO NO MORE THAN CALMLY STATE OUR CASE
IN SUCH CIRCUMSTANCES.

6. THERE ARE FEW SUBJECTS IN JAPAN TODAY WHICH
CAN BE COUNTED ON TO ATTRACT SO MUCH MEDIA AND
POPULAR INTEREST AS EXCHANGE RATE POLICY. ON
EVERY OCCASION WHEN EMBASSY ECONOMIC OFFICERS
APPEAR PUBLICLY OR DISCUSS PROBLEMS SOCIALLY,
THE JAPANESE BRING UP THE EXCHANGE RATE QUESTION
ARISES. THE JAPANESE WANT US TO SAY WHAT THE
"CORRECT" RATE SHOULD BE. THEY SEEM TO WANT
US TO CRITICIZE THE MANAGEMENT OF FOREIGN EX-
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CHANGE MARKETS BY THE GOVERNMENT OF JAPAN. IT
IS HARD FOR JAPANESE TO TAKE SERIOUSLY OUR COMMIT-
MENT TO THE JAMAICA ARRANGEMENT. FOR THIS REASON
U.S. OFFICIALS MUST BE EXCEEDINGLY CAUTIOUS

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ABOUT THEIR REMARKS ON THE YEN RATE OF EXCHANGE
BECAUSE ANYTHING THEY SAY WILL BE TAKEN DOWN IN
EVIDENCE AND USED AGAINST THEM AT THE SLIGHTEST
OPPORTUNITY.

7. IN OUR DEALINGS WITH JAPAN ON OUR CURRENT
TRADE CRISIS, WE DO NOT BELIEVE THAT OUR POINTS
ARE FALLING ON DEAF EARS. THE JAPANESE, WE BE-
LIEVE, ARE HONESTLY SKEPTICAL ABOUT THE EFFECTIVENESS
OF THE TOOLS AVAILABLE TO THEM TO BRING ABOUT THE
CORRECTION WHICH WE SO STRONGLY DEMAND. THEY
ARE NOT LACKING IN DESIRE TO IMPROVE THE SITUATION.
ALL OUR EVIDENCE INDICATES THAT THE PRIME
MINISTER IS TOTALLY COMMITTED TO DOING WHATEVER
HE CAN. BUT JAPANESE DOUBTS ARE SOMETIMES REIN-
FORCED BY DISSENTING VOICES FROM U.S. IT
HAS BEEN SAID THAT JAPAN CANNOT CHANGE AND THAT
THE CORRECTION OF JAPAN'S C/A SURPLUS PROBLEM
REQUIRES A RESTRUCTURING OF THE ECONOMY WHICH
CANNOT BE ACHIEVED IN LESS THAN FIVE YEARS.
SUCH OBSERVATIONS MAY REALISTICALLY ASSESS THE
SERIOUSNESS OF THE PROBLEM. HOWEVER, IT IS
EASY FOR SOME JAPANESE TO PICK UP VIEWS LIKE
THIS WHICH DOVETAIL NICELY WITH THEIR OWN, AND
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CONCLUDE THAT THERE IS LITTLE OF SUBSTANCE THEY CAN DO.

8. OUR GENERAL APPROACH AT THIS TIME SHOULD CONTINUE
TO BE THE LINE TAKEN BY UNDER SECRETARY COOPER DURING
HIS SEPTEMBER VISIT. WE UNDERSTAND THAT APPROACH TO
BE ALONG THE FOLLOWING BROAD OUTLINE: (A) BECAUSE OF
ARAB OIL SURPLUSES THE WORLD IS FACING A SERIOUS IN-
TERNATIONAL PAYMENTS SITUATION WHICH IS NOT BEING
HELPED, AND IS IN FACT BEING MADE WORSE, BY JAPAN'S
PERSISTENT C/A SURPLUS. (B) A SERIES OF MEASURES
BY BOTH JAPAN AND THE U.S. ARE NEEDED. (C) JAPAN
SHOULD INCREASE IMPORTS, INCREASE AID, AND AVOID
MEASURES WHICH NEEDLESSLY ENCOURAGE JAPANESE EXPORTS.

(D) MACRO-ECONOMIC MEASURES ARE A MAJOR FIRST STEP
WHICH WILL HAVE USEFUL DIRECT AND INDIRECT EFFECTS
AND WHICH WILL CREATE AN ENVIRONMENT IN WHICH SUPPLE-
MENTARY MEASURES CAN BE EFFECTIVE. (E) APPRECIATION
OF THE YEN, WHEN THE OPERATION OF THE FREE
MARKET SO DICTATES, IS A FURTHER HELP. (F) THERE
IS A LONG LIST OF ADDITIONAL MEASURES WHICH JAPAN
COULD TAKE TO SMOOTH IMPORTS, SUCH AS LIBERALIZING
QUOTAS, SIMPLIFYING IMPORT PROCEDURES, AND ENCOURAGING
PROCUREMENT FROM FOREIGN SUPPLIERS. SOME OF
THESE MEASURES HAVE RELATIVELY LITTLE VALUE COM-
PARED TO THE HUGE AMOUNT OF JAPAN'S C/A SURPLUS,
BUT IMPLEMENTING THEM WOULD CLEAR AWAY IMPORTANT
IRRITATIONS. (G) THERE ARE ALSO MEASURES WHICH
THE U.S. CAN TAKE TO EXPAND EXPORTS, AND WE ARE

ORGANIZING TO IMPROVE OUR EXPORT PERFORMANCE.

9. WE THINK THAT THE REITERATION OF THE FOREGOING
LINE ON EVERY APPROPRIATE OCCASION,EVEN TO THE
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POINT OF TEDIUM, IS THE WAY TO STEADILY
GAIN OUR OBJECTIVE, GIVING JAPAN (AND OURSELVES)
CREDIT WHENEVER IT IS DUE.

10. ON THE QUESTION OF TACTICAL SUGGESTIONS WE
COULD NOT DO BETTER THAN TO REITERATE THE HIGH-
LIGHTS OF THE AMBASSADOR'S SPEECH TO THE AMERICA-
JAPAN SOCIETY ON OCTOBER 14. WHAT WE NEED ISS A
CALM, NON-PUBLIC, PROBLEM-SOLVING APPROACH TO PRO-
BLEMS OF MUTUAL CONCERN. WE CAN RECOGNIZE THEIR
DIFFICULTY, BUT SHOW CONFIDENCE IN OUR ABILITY TO
DEVELOP JOINT SOLUTIONS.

11. THE CHANNEL USED FOR MAKING REPRESENTATIONS
CAN BE IMPORTANT. THE JAPANESE HAVE A HABIT OF
APPROACHING A WIDE SPECTRUM OF U.S. OFFICIALS AT
VARIOUS LEVELS AND LOCATIONS. THIS MAKES IT IN-
CUMBENT ON US TO SPEAK CONSISTENTLY EVEN IF NOT
WITH ONLY ONE VOICE.

12. ONE FINAL POINT: WE SHOULD NOT SHOW TOO
MUCH PUBLIC DESPAIR. BASED ON THE HISTORICAL
PATTERN, THERE IS REASON FOR US AND THE JAPANESE TO
BE CONFIDENT THAT OUR PROBLEMS CAN BE SOLVED. AMBASSADOR
STRAUSS' PRESS CONFERENCE AS REPORTED IN THE
TOKYO PRESS LAST WEEK SOUNDS A WELCOME NOTE OF
OPTIMISM WHICH SHOULD BE REINFORCED. WE ARE DEALING
WITH A SITUATION IN WHICH PSYCHOLOGICAL FACTORS ARE
IMPORTANT. THE ADVANCEMENT OF BOTH THE JAPANESE AND
THE U.S. ECONOMIES, WHICH WE ALL SO STRONGLY DESIRE,
WILL BE EASIER IF WE SHOW TRUE SELF CONFIDENCE.
MANSFIELD

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